

BAY MILLS TOWNSHIP, CHIPPEWA COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

March 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

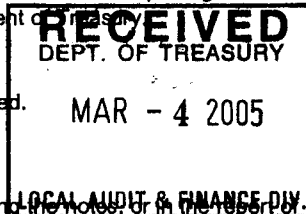
Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Bay Mills Township	County Chippewa
Audit Date March 31, 2004	Opinion Date January 29, 2005	Date Accountant Report Submitted to State: February 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Gillett, Halvorsen & Leonhardt, CPA, PC			
Street Address P.O. Box 437, 478 W. Spruce Street	City Sault Ste. Marie	State MI	ZIP 49783
Accountant Signature 		Date 2/28/05	

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GILLETT, HALVORSEN & LEONHARDT, P.C.

Certified Public Accountants

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MEMBER OF THE MICHIGAN
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

Township Board
Township of Bay Mills
Brimley, Michigan 49715

We have audited the accompanying combined statement of assets and liabilities arising from cash transactions of Bay Mills Township, Brimley, Michigan, as of March 31, 2004, and the related combined statement of revenues collected, expenditures paid and changes in cash basis fund balances for the year then ended, as listed in the table of contents. These financial statements are the responsibility of Bay Mills Township, Brimley, Michigan, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the Summary of Significant Accounting Policies, Note 1, the Township prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Michigan, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The Township has not maintained a record of its general fixed asset account group and accordingly, a general fixed asset account group statement required by cash basis of accounting and budget laws of the State of Michigan is not included. The amount that should be recorded in the general fixed asset account group is not known.

The Township of Bay Mills has a population of less than 4,000 people and is therefore required by Act 2, Public Acts of 1968 of the State of Michigan to have an independent audit only biennially. The preceding year has thus not been audited; however, we have performed various tests of the opening balances.

In our opinion, except for the effect of the omission described in the fourth paragraph, the combined financial statements listed in the table of contents present fairly, in all material respects, the assets, liabilities and cash basis fund balances of Bay Mills Township as of March 31, 2004, arising from cash transactions, and its revenues collected, expenditures paid, and changes in cash basis fund balances for the year then ended, on the basis of accounting described in Note 1 - Summary of Significant Accounting Policies.

This report is intended solely for the information and use of the governing body and management of Bay Mills Township, Brimley, Michigan, and for filing with the State of Michigan. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Our audit was made for the purpose of forming an opinion on the financial statements of Bay Mills Township, Brimley, Michigan, taken as a whole. The other financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our report of auditors' communication and comments and recommendations is included herein and forms a part of this report.

Gillett Halvorsen & Leonhardt PC

Certified Public Accountants

January 31, 2005
Sault Ste. Marie, Michigan

BAY MILLS TOWNSHIP

COMBINED STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND ACCOUNT GROUP

March 31, 2004

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPES
	GENERAL FUND	SPECIAL REVENUE FUND	TRUST AND AGENCY FUNDS
ASSETS AND OTHER DEBITS			
Cash and investments	\$277,485	\$32,585	\$ 32,048
Taxes receivable	3,294	-0-	-0-
Due from other funds	1,023	-0-	-0-
Due from other governmental units	-0-	-0-	5,434
Amount to be provided	-0-	-0-	-0-
TOTAL ASSETS AND OTHER DEBITS	\$281,802	\$32,585	\$ 37,482
	=====	=====	=====
LIABILITIES AND CASH BASIS FUND BALANCES			
LIABILITIES			
Deferred revenue			
Taxes receivable	\$ 3,294	\$ -0-	\$ -0-
Due to other funds	-0-	-0-	1,023
Due to other governmental units	-0-	-0-	10,367
Note payable to bank	-0-	-0-	-0-
TOTAL LIABILITIES	\$ 3,294	\$ -0-	\$ 11,390
CASH BASIS FUND BALANCES			
Unreserved and undesignated	278,508	23,585	-0-
Reserved for pension	-0-	-0-	26,092
Reserved for grant	-0-	9,000	-0-
TOTAL CASH BASIS FUND BALANCES	\$278,508	\$32,585	\$ 26,092
	=====	=====	=====
TOTAL LIABILITIES AND CASH BASIS FUND BALANCES	\$281,802	\$32,585	\$ 37,482
	=====	=====	=====

See accompanying notes and auditors' report.

=====	
ACCOUNT	
GROUP	

GENERAL	TOTAL
LONG-TERM	(MEMORANDUM
DEBT	ONLY)
=====	
\$ -0-	\$342,118
-0-	3,294
-0-	1,023
-0-	5,434
18,884	18,884
-----	-----
\$18,884	\$370,753
=====	=====
\$ -0-	\$ 3,294
-0-	1,023
-0-	10,367
18,884	18,884
-----	-----
\$18,884	\$ 33,568
-0-	302,093
-0-	26,092
-0-	9,000
-----	-----
\$ -0-	\$337,185
-----	-----
\$18,884	\$370,753
=====	=====

BAY MILLS TOWNSHIP

COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND
CHANGES IN CASH BASIS FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

For the year ended March 31, 2004

=====				
GOVERNMENTAL FUND TYPES				
	GENERAL	SPECIAL	DEBT	TOTAL
	FUND	REVENUE	SERVICE	(MEMORANDUM
		FUND	FUND	ONLY)
=====				
Revenues Collected				
Taxes	\$ 30,380	\$ -0-	\$ -0-	\$ 30,380
Federal grants	-0-	22,495	-0-	22,495
State grants	102,951	-0-	-0-	102,951
Contributions from other governmental units	135,942	3,775	-0-	139,717
Charges for services and sales	9,731	3,076	-0-	12,807
Interest and rents	4,138	385	-0-	4,523
Other	2,953	-0-	-0-	2,953
	-----	-----	-----	-----
Total Revenues Collected	\$286,095	\$ 29,731	\$ -0-	\$315,826
Expenditures Paid				
Legislative	\$ 3,250	\$ -0-	\$ -0-	\$ 3,250
General government	94,965	-0-	-0-	94,965
Public safety	6,254	28,871	-0-	35,125
Public works	31,373	-0-	-0-	31,373
Culture and recreation	600	-0-	-0-	600
Debt service	-0-	-0-	36,000	36,000
Capital outlay	64,047	-0-	-0-	64,047
Other functions	44,160	-0-	-0-	44,160
	-----	-----	-----	-----
Total Expenditures Paid	\$244,649	\$ 28,871	\$ 36,000	\$309,520
	-----	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENDITURES PAID	\$ 41,446	\$ 860	\$ (36,000)	\$ 6,306
Other Financing Sources (Uses)				
Operating transfers in	-0-	10,000	36,000	46,000
Operating transfers out	(46,000)	-0-	-0-	(46,000)
	-----	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES COLLECTED AND OTHER FINANCING SOURCES OVER EXPENDITURES PAID AND OTHER FINANCING USES	\$ (4,554)	\$ 10,860	\$ -0-	\$ 6,306
CASH BASIS FUND BALANCES - APRIL 1, 2003	283,062	21,725	-0-	304,787
	-----	-----	-----	-----
CASH BASIS FUND BALANCES - MARCH 31, 2004	\$278,508	\$ 32,585	\$ -0-	\$311,093
	=====	=====	=====	=====

See accompanying notes and auditors' report.

BAY MILLS TOWNSHIP

COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCES - GENERAL AND SPECIAL REVENUE FUND - BUDGET AND ACTUAL

For the year ended March 31, 2004

=====			
	GENERAL FUND		

	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
=====			
Revenues Collected			
Taxes	\$ 26,000	\$ 30,380	\$ (4,380)
Federal grants	-0-	-0-	-0-
State grants	99,000	102,951	(3,951)
Contributions from other governmental units	130,000	135,942	(5,942)
Charges for services and sales	10,000	9,731	269
Interest and rents	6,000	4,138	1,862
Other	-0-	2,953	(2,953)
	-----	-----	-----
Total Revenues Collected	\$271,000	\$286,095	\$ (15,095)
Expenditures Paid			
Legislative	\$ 3,500	\$ 3,250	\$ 250
General government	120,500	94,965	25,535
Public safety	9,000	6,254	2,746
Public works	82,400	31,373	51,027
Culture and recreation	6,600	600	6,000
Capital outlay	89,500	64,047	25,453
Other functions	41,000	44,160	(3,160)
	-----	-----	-----
Total Expenditures Paid	\$352,500	\$244,649	\$ 107,851
	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENDITURES PAID	\$ (81,500)	\$ 41,446	\$ (122,946)
Other Financing Sources (Uses)			
Operating transfers in	-0-	-0-	-0-
Operating transfers out	-0-	(46,000)	(46,000)
	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES COLLECTED AND OTHER FINANCING SOURCES OVER EXPENDITURES PAID AND OTHER FINANCING USES	\$ (81,500)	\$ (4,554)	\$ (76,946)
CASH BASIS FUND BALANCES - APRIL 1, 2003	283,062	283,062	-0-
	-----	-----	-----
CASH BASIS FUND BALANCES - MARCH 31, 2004	\$201,562	\$278,508	\$ (76,946)
	=====	=====	=====

See accompanying notes and auditors' report.

SPECIAL REVENUE FUND			TOTAL (MEMORANDUM ONLY)		
BUDGET	ACTUAL	VARIANCE UNDER (OVER)	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
\$ -0-	\$ -0-	\$ -0-	\$ 26,000	\$ 30,380	\$ (4,380)
-0-	22,495	(22,495)	-0-	22,495	(22,495)
60,000	-0-	-0-	99,000	102,951	(3,951)
-0-	3,775	56,225	190,000	139,717	50,283
-0-	3,076	(3,076)	10,000	12,807	(2,807)
-0-	385	(385)	6,000	4,523	1,477
-0-	-0-	-0-	-0-	2,953	(2,953)
\$ 60,000	\$ 29,731	\$ 30,269	\$331,000	\$315,826	\$ 15,174
\$ -0-	\$ -0-	\$ -0-	\$ 3,500	\$ 3,250	\$ 250
-0-	-0-	-0-	120,500	94,965	25,535
60,000	28,871	31,129	69,000	35,125	33,875
-0-	-0-	-0-	82,400	31,373	51,027
-0-	-0-	-0-	6,600	600	6,000
-0-	-0-	-0-	89,500	64,047	25,453
-0-	-0-	-0-	41,000	44,160	(3,160)
\$ 60,000	\$ 28,871	\$ 31,129	\$412,500	\$273,520	\$ 138,980
\$ -0-	\$ 860	\$ (860)	\$ (81,500)	\$ 42,306	\$ (123,806)
-0-	10,000	(10,000)	-0-	10,000	(10,000)
-0-	-0-	-0-	-0-	(46,000)	(46,000)
\$ -0-	\$ 10,860	\$ (10,860)	\$ (81,500)	\$ 6,306	\$ (87,806)
21,725	21,725	-0-	304,787	304,787	-0-
\$ 21,725	\$ 32,585	\$ (10,860)	\$223,287	\$311,093	\$ (87,806)

BAY MILLS TOWNSHIP
STATEMENT OF CHANGES IN PLAN NET ASSETS ON A CASH BASIS
PENSION TRUST FUND

For the year ended March 31, 2004

=====	
Additions	
Contributions	\$ 7,866
Earnings	5,958

Total Additions	\$13,824
Deductions	
Administrative and other expenses	\$ 317
Withdrawals	378

Total Deductions	\$ 695

Net Increase in Plan Assets	\$13,129
Fund Balance Reserved for Pension Benefits - April 1, 2003	12,963

Fund Balance Reserved for Pension Benefits - March 31, 2004	\$26,092
	=====

See accompanying notes and auditors' report.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Bay Mills Township is a regular law Michigan township with a population of 1,214. The Township is governed by a five member board of officials elected by the Township voters.

A. REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Township (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. In accordance with generally accepted accounting principles, there were no component units to be included in these financial statements.

B. BASIS OF PRESENTATION

The accounts of the Township are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The financial activities of the local unit are recorded in separate funds categorized as follows:

Government Fund Types:

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid and charges for services to provide for the administration and operation of: (1) general Township, governmental departments, boards and commissions; (2) law enforcement; and (3) health welfare. This fund includes the general operating expenditures of the Township.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) generally derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements. The Fire and Ambulance Fund is the only special revenue fund of Bay Mills Township.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Fund Types

Trust and agency funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Bay Mills Township has two fiduciary accounts, one Agency Fund for tax collections and one Pension Trust Fund for the defined contribution pension plan.

Account Group

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of The Township and for those long-term liabilities to be liquidated with resources to be provided in future refunds.

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Bay Mill Township uses a financial resource measurement focus and the cash basis of accounting.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (CONTINUED)

The accounting books and records of Bay Mills Township are maintained on the cash basis of accounting during the year and the financial statements have been prepared directly from these books and records. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. Under the cash basis certain revenues and related assets are recognized when received rather than when they are measurable and available and certain expenses are recognized when paid rather than when the obligation is incurred. The aforementioned statements do not, therefore, give affect to accounts receivable, accounts payable and accrued items. Generally accepted accounting principles require the modified accrual basis of accounting.

The Pension Trust Fund of Bay Mills Township is presented at fair market value of the plan assets. Fair value is determined using the market value of the plan as of March 31, 2004.

D. PROPERTY TAXES

The Township's annual property tax on real and personal property within the Township is levied on December 1 and is based on taxable valuation of property as of the preceding December 31. Taxable valuation, which is required by law to be 50% of current market value, is established by the Township and is subject to possible equalization by the State. In addition to collecting their own taxes, the Township also acts as collection agent for all overlapping governments in the Township, which includes school districts, intermediate school districts and the County. Property taxes are recorded as revenue on the cash basis when collected. The total current property taxes collected for Bay Mills Township for the year were \$28,182 which is recorded in the General Fund.

E. PROPERTY TAX MILLAGE

The Township's property tax is levied on each December 1 on the State equalized valuation of property located in the Township as of the preceding December 31.

Although the Township's 2003 tax is levied and collectible on December 1, 2003, it is the Township's policy to recognize revenue from the current tax levy when received.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. PROPERTY TAX MILLAGE (CONTINUED)

The 2003 State equalized valuation of Bay Mills Township totaled \$48,824,800 with a taxable value of \$31,475,500 on which taxes levied consisted of 1.0000 mills for the Township operating purposes.

F. BUDGETS

A budget was adopted by Bay Mills Township for the General and Special Revenue Funds. The budgets are adopted after holding a public hearing and approving the budget before any business is transacted for the year. In addition, the board makes amendments to the budget throughout the year as they deem necessary. The budget was prepared on the cash basis. Revenues are budgeted on a major source basis in the year receipt is expected, and expenditures are budgeted on an activity basis in the year payment is expected to be made. The financial statements present comparisons of actual revenue collected and expenditures paid to these budgets.

G. CASH AND INVESTMENTS

Bay Mills Township's cash consists of checking accounts, savings accounts, and certificates of deposit. Bay Mills Township's investments consists of insurance annuities for the Pension Trust Fund.

H. OPERATING TRANSFERS

During the course of normal operations, the Township has transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

I. DUE TO AND DUE FROM

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. GENERAL FIXED ASSETS

The Township does not maintain a General Fixed Asset Account Group as required by cash basis and budget laws of the State of Michigan. Purchases of fixed assets are recorded as expenditures in the General and Special Revenue Fund types at the time of acquisition. These assets should be capitalized at cost and recorded in the General Fixed Assets Account Group.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. No depreciation is taken on these assets.

K. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or change in financial position in conformity with the cash basis and budget laws of the State of Michigan, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

L. USE OF ESTIMATES

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

NOTE 2 - BUDGET AMENDMENT

Once approved, the Township may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. There were no budget amendments authorized during the year.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

NOTE 3 - LEGAL COMPLIANCE

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act P.A. 2 of 1968 as amended (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Bay Mills Township's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets for Bay Mills Township for the budgeted funds were adopted to the activity level.

During the year, Bay Mills Township incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
General Government			
Treasurer	\$12,000	\$12,656	\$ 656
Public Safety			
Ambulance	-0-	125	125
Other Functions			
Insurance and bonds	21,000	27,976	6,976
Operating transfers out			
Special Revenue Fund			
Public Safety			
Fire and Ambulance	-0-	10,000	10,000
Debt Service Fund	-0-	36,000	36,000

Failure to adopt an investment policy

Bay Mills Township does not have an investment policy. On February 11, 1997, the Michigan Department of Treasury, Local audit and Finance Division, issued Letter #98-3 regarding investments. This letter added a new requirement that Local Units must adopt an investment policy which includes specific matters. Bay Mills Township was required by this letter to have a policy by September 30, 1998.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

NOTE 4 - CASH DEPOSITS AND INVESTMENTS

Bay Mills Township's cash as presented in the balance sheet is made up of the following:

Cash in checking	\$ 15,259
Cash in savings and money market funds	250,767
Certificates of deposit	50,000
Pension Trust Fund	26,092

Total	\$342,118
	=====

Michigan Compiled Laws, Section 129.91, authorized the Township to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase, and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Township board has authorized one bank as their designated financial institution.

Bay Mills Township has not adopted an investment policy in accordance with Act 196 PA 1997.

Cash Deposits

According to GASB Statement No. 3, risk disclosures for cash deposits are as follows:

	Carrying Amount	Bank Amount
	-----	-----
Insured (FDIC)	\$115,259	\$200,000
Uninsured and uncollateralized	200,767	335,037
	-----	-----
Total Deposits	\$316,026	\$535,037
	=====	=====

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

NOTE 4 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

The amount reported as bank amount represents the balance per financial institutions which excludes any deposits in transit and outstanding checks. The carrying amount represents the amount as reported for the Township's financial statements. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance.

Investments

In accordance with GASB 3 risk disclosures for Municipal Investment and insurance annuities are non risk categorized.

	Carrying Amount	Market Value
	-----	-----
Non-risk - categorized		
Pension Trust Fund		
Insurance annuities	\$26,092	\$26,092
	=====	=====

Bay Mills Township has investments with the Manufacturers Life Insurance for the Defined Contributions Pension Trust Fund which is presented at fair value of the plan assets.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at March 31, 2004, are as follows:

Fund	Interfund Receivable	Interfund Payable
-----	-----	-----
General	\$1,023	\$ -0-
Trust and agency - tax	-0-	1,023
	-----	-----
TOTALS	\$1,023	\$1,023
	=====	=====

NOTE 6 - TAXES RECEIVABLE AND DEFERRED PROPERTY TAX REVENUE

A receivable due from Chippewa County in the amount of \$3,294 has been recorded for settlement of 2003 delinquent real property taxes. This amount is recorded as taxes receivable in the General Fund.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

NOTE 7 - GENERAL LONG-TERM DEBT

The Township has a note payable to a bank for the purchase of vehicle for the fire department which is reflected in the General Long-Term Debt Account Group. Current requirements for principle and interest expenditures are accounted for in the Debt Service Fund.

Description

Installment note payable to Central Savings Bank,
payable in monthly installments of \$2,380.05 including
interest at 4.50% per annum, maturing May 15, 2005.
Secured by equipment.

\$18,884
=====

Principal payments on long-term debt are as follows:

Year end March 31, 2005

\$18,884
=====

The Township has been paying \$3,000 per month instead of the normal monthly payment and expect to pay off the note in advance of the maturity date.

NOTE 8 - OPERATING TRANSFERS IN AND OPERATING TRANSFERS (OUT)

For the year ended March 31, 2004, the operating transfers are summarized as follows:

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ -0-	\$46,000
Special Revenue Fund		
Fire and Ambulance	10,000	-0-
Debt Service Fund	36,000	-0-
	-----	-----
TOTALS	\$46,000	\$46,000
	=====	=====

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 9 - DEFINED CONTRIBUTION PENSION PLAN

Bay Mills Township adopted a defined contribution pension plan using the Manufacturers Life Insurance Company (USA). The plan name is the Manulife Financial Defined Contribution Pension Plan for Governmental Employees. The effective date of plan adoption was June 26, 2001. The Plan administrators are the clerk and treasurer of Bay Mills Township. The plan is a money purchase pension plan also called a defined contribution, individual retirement account plan because contributions to the plan are fixed and the retirement benefit is that which the total amount of contributions and earnings (money) will provide (purchase) for each employee.

Participants in the plan are all the elected officials of the Township as well as the assessor and maintenance supervisor. There is no age or service requirements. Currently there are seven people in the plan. The policy permits the Township amend the plan.

Contributions to the plan for eligible employees are made by Bay Mills Township based on 15% of eligible payroll which is defined as cash compensation actually paid throughout the plan year except overtime and bonuses. The participants may also make voluntary after-tax contributions, through payroll withholding, in amounts ranging from 1% to 10% of compensation.

Contributions for the plan year were \$7,866 by Bay Mills Township. There were no participant voluntary after-tax contributions.

The funds of the Bay Mills Township defined contribution pension plan are invested in Manulife Financial general account at interest rates which are guaranteed if held to maturity. These accounts invest primarily in federal and other governmental bonds, corporate bonds and commercial mortgages and are presented at fair market value on the cash basis.

NOTE 10 - POSTEMPLOYMENT

Bay Mills Township does not provide any postemployment benefits and, therefore, no accrual has been recorded for these benefits as of March 31, 2004.

NOTE 11 - COMPENSATED ABSENCES

The Township does not have a vacation or a sick leave benefit policy and, therefore, no accrual has been recorded for these benefits as of March 31, 2004.

BAY MILLS TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

=====

NOTE 12 - RISK MANAGEMENT

Bay Mills Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as workmens compensation benefits provided to employees.

The Township participates in the Michigan Township Participating plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township above the \$100 deductible amount. The Township pays an annual premium of \$11,128 for this plan. The plan has a maximum liability for general liability of \$3,000,000, wrongful acts of \$2,000,000 and automobile liability of \$1,000,000.

Therefore, the Township has no additional liabilities beyond the contribution made to the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official error and omissions liabilities as it is covered by insurance policies or reinsurance treaties obtained by the plan.

In addition, the Township has purchased commercial insurance for workmens compensation benefits.

Settled claims for the insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through insurance during the past year.

NOTE 13 - CONTINGENCIES

The Township maintained a landfill which was closed in 1989. The Township monitors and tests the landfill to ensure the property meets acceptable environmental guidelines. Tests will be required yearly for an undetermined amount of time.

OTHER FINANCIAL INFORMATION

BAY MILLS TOWNSHIP

STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCE - GENERAL FUND - BUDGET AND ACTUAL

For the year ended March 31, 2004

	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
Revenues Collected			
Taxes			
Current property taxes	\$ 26,000	\$ 28,182	\$ (2,182)
Delinquent property taxes	-0-	2,198	(2,198)
Total Taxes	\$ 26,000	\$ 30,380	\$ (4,380)
State Grants			
Payments in lieu of taxes	\$ 19,000	\$ 20,194	\$ (1,194)
State revenue sharing	80,000	82,757	(2,757)
Total State Grants	\$ 99,000	\$102,951	\$ (3,951)
Contribution from other governmental units	\$130,000	\$135,942	\$ (5,942)
Charges for Services and Sales			
Charges for services	\$ 5,500	\$ 4,208	\$ 1,292
Charges for sales	4,500	5,523	(1,023)
Total Charges for Services and Sales	\$ 10,000	\$ 9,731	\$ 269
Interest and Rents			
Interest	\$ 5,000	\$ 4,073	\$ 927
Rents	1,000	65	935
Total Interest and Rents	\$ 6,000	\$ 4,138	\$ 1,862
Other			
Miscellaneous	\$ -0-	\$ 2,953	\$ (2,953)
TOTAL REVENUES COLLECTED	\$271,000	\$286,095	\$ (15,095)
Expenditures Paid			
Legislative			
Township board	\$ 3,500	\$ 3,250	\$ 250

See auditors' report.

BAY MILLS TOWNSHIP

STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCE - GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)

For the year ended March 31, 2004

	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
Expenditures Paid (Continued)			
General Government			
Supervisor	\$ 7,000	\$ 6,200	\$ 800
Elections	2,000	370	1,630
Legal and accounting	15,000	4,353	10,647
Assessor	15,000	14,576	424
Clerk	10,500	8,331	2,169
Board of review	2,000	648	1,352
Treasurer	12,000	12,656	(656)
Township hall	47,000	45,251	1,749
Cemetery	10,000	2,580	7,420
Total General Government	\$120,500	\$ 94,965	\$ 25,535
Public Safety			
Zoning	\$ 9,000	\$ 6,129	\$ 2,871
Ambulance	-0-	125	(125)
Total Public Safety	\$ 9,000	\$ 6,254	\$ 2,746
Public Works			
Highways, streets and bridges	\$ 80,000	\$ 31,000	\$ 49,000
Landfill	1,000	300	700
Street lights	1,400	73	1,327
Total Public Works	\$ 82,400	\$ 31,373	\$ 51,027
Culture and Recreation			
Library	\$ 100	\$ 100	\$ -0-
Parks and recreation	5,000	-0-	5,000
Community works	1,500	500	1,000
Total Culture and Recreation	\$ 6,600	\$ 600	\$ 6,000
Capital Outlay	\$ 89,500	\$ 64,047	\$ 25,453

See auditors' report.

BAY MILLS TOWNSHIP

STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCE - GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)

For the year ended March 31, 2004

	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
Expenditures Paid (Continued)			
Other Functions			
Insurance and bonds	\$ 21,000	\$ 27,976	\$ (6,976)
Employee benefits	17,000	15,574	1,426
Other	1,000	610	390
Contingency	2,000	-0-	2,000
Total Other Functions	\$ 41,000	\$ 44,160	\$ (3,160)
Total Expenditures Paid	\$352,500	\$244,649	\$ 107,851
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENDITURES PAID	\$(81,500)	\$ 41,446	\$(122,946)
Other financing sources (uses)			
Operating transfers out	-0-	(46,000)	(46,000)
EXCESS (DEFICIENCY) OF REVENUES COLLECTED AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES PAID	\$(81,500)	\$ (4,554)	\$ (76,946)
CASH BASIS FUND BALANCE - APRIL 1, 2003	283,062	283,062	-0-
CASH BASIS FUND BALANCE - MARCH 31, 2004	\$201,562	\$278,508	\$ (76,946)

See auditors' report.

BAY MILLS TOWNSHIP

COMBINING STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUND TYPE

March 31, 2004

	TRUST FUND	AGENCY FUND	TOTAL
	PENSION	TAX COLLECTION	(MEMORANDUM
	TRUST FUND	FUND	ONLY)
ASSETS			
Cash and investments	\$26,092	\$ 5,956	\$ 32,048
Due from other governmental units	-0-	5,434	5,434
TOTAL ASSETS	\$26,092	\$ 11,390	\$ 37,482
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Due to other funds	\$ -0-	\$ 1,023	\$ 1,023
Due to other governmental units	-0-	10,367	10,367
TOTAL LIABILITIES	\$ -0-	\$ 11,390	\$ 11,390
FUND BALANCES			
Reserved for pension	26,092	-0-	26,092
TOTAL LIABILITIES AND CASH BASIS FUND BALANCES	\$26,092	\$ 11,390	\$ 37,482

See auditors' report.

BAY MILLS TOWNSHIP

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
TAX COLLECTION FUND

For the year ended March 31, 2004

	BALANCE APRIL 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE MARCH 31, 2004
ASSETS				
Cash	\$8,265	\$960,073	\$962,382	\$ 5,956
Due from other governmental units - School District	-0-	5,434	-0-	5,434
TOTAL ASSETS	\$8,265	\$965,507	\$962,382	\$11,390
	=====	=====	=====	=====
LIABILITIES				
Due to other funds	\$8,265	\$ 29,319	\$ 36,561	\$ 1,023
Due to other governmental units:				
Chippewa County	-0-	391,985	386,556	5,429
School Districts	-0-	544,094	539,156	4,938
State of Michigan	-0-	109	109	-0-
TOTAL LIABILITIES	\$8,265	\$965,507	\$962,382	\$11,390
	=====	=====	=====	=====

See auditors' report.



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JAMES A. GILLETT
JAMES E. HALVORSEN
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MEMBER OF THE MICHIGAN
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Township Board
Township of Bay Mills Township
Brimley, MI 49715

We have recently completed our audit of the financial statements of Bay Mills Township for the year ended March 31, 2004. As required by generally accepted auditing standards, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for with management is responsible.

AUDITOR'S RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

We conducted our audit of the financial statements of Bay Mills Township in accordance with generally accepted auditing standards. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error are remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the audit must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute, that financial statements are free of material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion".

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

During the year ended March 31, 2004, the Township did not initiate or change any of their significant accounting policies.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility of that future event affecting them may differ markedly from management's current judgment; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/EFFICIENCY

Our procedures, which were made for the limited purpose described previously, would not necessarily disclose all material weaknesses in the system of internal control. Accordingly, we do not express an opinion on the system of internal control structure of the Township taken as a whole. However, our procedures disclosed the following conditions that we would like to bring to your attention.

CASH AND INVESTMENTS

At year end, the Township had \$335,037 in deposits with financial institutions that are uninsured by federal depository insurance. We recommend that the Township insure all funds.

INVESTMENT POLICY

On February 11, 1997, the Michigan Department of Treasury, Local Audit and Finance Division, issued Letter #98-3, regarding investments. This letter addressed Act 196 PA 1997, which was signed and took immediate affect on December 30, 1997. This Act altered, somewhat, the types of investments local governmental units can invest in and added a new requirement that Local Units must adopt an investment policy which includes specified matters. The policy must be adopted within 180 days after the end of the local unit's first fiscal year that ends after December 30, 1997. Therefore, for Bay Mills Township that date would be September 30, 1998. In addition, the local unit is required to provide the financial intermediary, broker or dealer a copy of this investment policy before executing an order to purchase or trade funds and the financial intermediary, broker or dealer shall acknowledge receipt of the policy and agree to comply with its terms.

The Township has not adopted the investment policy in accordance with Act 196 PA 1997. We recommend that the Township adopt an investment policy which is in accordance with the aforementioned act.

GENERAL FIXED ASSET ACCOUNT GROUP

The accounting principles for cash basis and budget laws for the State of Michigan require that a local unit of government maintain a general fixed asset account group. This is a listing of all fixed assets owned by the Township. The Township does not maintain one of these at the present time. We recommend that the Township take a physical inventory and set up a general fixed asset account group.

BUDGET

During the current year, expenditures exceeded the amount appropriated in five instances. Therefore, the Township has not complied with P.A. 621 of 1978, Section 18(1), as amended, which states that a local unit of government shall not incur expenditures in excess of the amount appropriated. We recommend that budget categories should not be over expended and that the budget be monitored and amended as necessary during the year, including the amounts of any operating transfers.

SEGREGATION OF DUTIES

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which the employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

The desired separation of duties cannot be achieved with a few employees involved. The careful and consistent oversight provided by the Township Board appears to offset the inability to separate various accounting functions and should be continued. The Township Board maintains monitoring of current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Township Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist.

In addition to the above reportable conditions, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency.

TAX COLLECTION FUND

The treasurer should have a change fund available during the tax collection fund to facilitate those taxes paid with cash.

This report is intended solely for the information and use of the Township Board.

Gillett Halvorsen & Leonhardt PC

Gillett, Halvorsen & Leonhardt, P.C.
Certified Public Accountants

January 31, 2005
Sault Ste. Marie, Michigan